

SUKUK TO GROW TO \$10 BILLION BY THE END OF 2006

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By Mehmood Rafique

The rapid growth of Islamic bonds, or Sukuks, has reached the \$8.5 billion mark with an expected forecast to reach \$10 billion by end of 2006. Under some estimates, the Islamic finance industry has reached the \$ 800 billion mark and is expected to grow to \$ 1.5 trillion within 10 years. While this unprecedented growth offers numerous business opportunities, it also poses a serious challenge for institutions like the International Islamic Financial Market (IIFM) to work on standardisation and product-innovation aspects, a senior Islamic market expert, has said.

The newly-appointed chief executive officer (CEO) at IIFM, Ijlal Ahmed Alvi, in a maiden interview, told Bahrain Tribune that the IIFM has already unveiled various initiatives to cope with future challenges. "The initiatives are part of the market's revised business plan and have been put forth with the market's board for necessary approval and review of the various aspects of future plans.

"The initiatives are aimed at stimulating the development of Islamic capital and money markets at both primary- and secondary-market levels," he said. The CEO, who is upbeat about the outcome of the new business plan, said that it was a healthy sign that the board of directors had approved the plan and other partners also agreed to extend all possible support to the latest initiatives.

"IIFM will work in close co-ordination with all infrastructure institutions established to develop the Islamic financial-service industry. The market is keen to establish alliances with international organisations involved in capital-market areas," Alvi said. "The market's board has also approved the re-organisation of the institution. "We have just launched the new corporate-identity logo with the new website launched soon," he said, adding that the new business plan was based on market requirements. "We at IIFM seek feedback from various institutions which help us to set up priorities and specific deliverables.

"Under the new business plan, IIFM will adopt a more focused approach on high-priority initiatives, such as contract standardisation, product innovation and opening up cross-border trading and infrastructure development in all vital sectors," Alvi said.

Elaborating on standardisation and universal acceptability, or endorsement, of various Islamic bonds, he said it was a part of the continuing process and the market would continue to seek a broader consensus on endorsement issues under the umbrella of the Islamic Development Bank (IDB). "There is a strong indication to have a Shari'ah supervisory board to cover the largest segments of the Islamic bond market. Apart from IDB, we have been in close contact with Pakistan, Bangladesh, Indonesia and other markets to work out a Sharia'h board with universal acceptability in the global market. Future plans to introduce mutual funds will stir the Islamic bond market," he said.

"IIFM has also been working closely with Security Exchange Commission of Pakistan

and Bank of Sudan to learn from their experience in the same fields. There are about 22 institutions on the market's board, and every member country has a role in developing this Islamic bond market," Alvi said.

Talking about primary and secondary markets, he said the Malaysian market needs a primary market to cope with the growing demands of their internal strong Islamic-bond market. "We want to be an active player in the development of Islamic capital and money markets, both at primary and secondary level.

"The Islamic-bond market is expanding since the launch of the first Sukuk about four years ago. Islamic-bond investments grew 300 per cent since last year, reaching the \$6.7 billion mark. Similarly, the sovereign Islamic-bond market in the Gulf attained \$4 billion at the end of last year.

"By next year, an estimated \$10 billion of Sukuk will be outstanding world wide. Under the given circumstances, IIFM plans to be an active player in stimulating capital and money-market activities, particularly cross-border trading of such instruments," Alvi said.

He said despite growing demand for tradable Islamic financial instruments, privatisation programmes in developing Islamic countries and advancing technology are among a host of factors contributing to globalisation of the world's rapidly growing capital markets. "It is a co-incidence that IIFM has unveiled a major initiative, especially in the wake of IDB's 10-year master plan in Islamic banking.

"The IDB initiative will complement IIFM efforts in modernising the existing Islamic-bond market, the development of the Islamic money market and products for the monetary-management initiative. The involvement and feedback from Islamic financial institutions across the globe will be key to the success of the market's initiatives," Alvi said.

"We are jointly organising an Islamic banking and money-market conference on September 14-15 in Karachi, Pakistan. The conference will help identify the demand as well as to spread of the Islamic-banking phenomena, knowledge and, most importantly, identify key initiatives required in order to develop the Islamic money and capital market.

"The event will be the first of its kind in Pakistan and is expecting 25 Islamic banking experts from the GCC, the Far East and Europe. Pakistan is a big market with a huge potential for growth, and the conference will help to create necessary awareness as well as seek consensus on various issues," Alvi said.